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C O N F I D E N T I A L SECTION 01 OF 02 KUWAIT 001155

SIPDIS

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TAGS: [EFIN](#) [EINV](#) [ECON](#) [KU](#)
SUBJECT: GULF BANK'S \$1.4 BILLION RESCUE PACKAGE;
MULTI-BILLION DOLLAR BOURSE BAILOUT

REF: A. A. KUWAIT 1123
[1](#)B. B. KUWAIT 1140

Classified By: Econcouns Oliver John for reasons 1.4 (b) and (d)

[1](#)1. (U) Summary: In the wake of massive trading losses in late October, Gulf Bank announced November 17 that its board of directors had approved an emergency capital subscription which will raise \$1.4 billion. Existing shareholders are expected to purchase the majority of these shares, with the Kuwait Investment Authority (KIA) slated to buy any leftover shares in the new issuance. The board of directors also announced that it will resign en masse. Separately, trading resumed on the Kuwait Stock Exchange (KSE) November 17 after a court overturned the November 13 court decision to shutter the bourse. The GOK announced a "bourse bailout" fund to shore up the KSE on November 18. End summary.

[1](#)2. (C) On November 17, Kuwait's second largest commercial bank, Gulf Bank, announced its recapitalization plan. The bank will double its capital through an emergency capital subscription (1.25 billion shares at 200 fils per share, for a total of \$1.4 billion). Current shareholders will have first priority for the new shares, with the GoK-controlled KIA committing to act as buyer of last resort. The entire board of directors will resign, effective after the completion of the share issuance. The bank announced that total losses and negative exposure to bad derivatives contracts amount to approximately \$1.4 billion. According to a senior bank executive, these losses include the one billion dollar trading loss by one major client and any other potential losses that the bank could identify, some of which might be recoverable. The official admitted that the bank would not be able to recover the billion dollar trading loss.

[1](#)3. (C) The bank's board of directors acted in the aftermath of massive trading losses in October (reftel) and three weeks of intensive negotiations with the Central Bank of Kuwait. According to the Gulf Bank executive, the debate centered over the level of government control and the dilution of shareholder equity, with the major shareholders pushing for the smallest possible dilution and the Central Bank pushing for increased control to the extent that it injected funds. The Central Bank continues to maintain its suspension of trading of Gulf Bank's shares on the Kuwait Stock Exchange (KSE). Local media reports and other sources indicate that the Kuwaiti authorities are still considering legal action against bank managers and shareholders.

[1](#)4. (U) In a separate development, an emergency court ruling on November 16 overturned the November 13 court order to shut down all trading on the KSE, a decision prompting strong criticism from both the Council of Ministers and private sector sources. On November 17, the Court of First Instance announced that hearings relating to the lawsuit filed by disgruntled traders and investors would resume on December 1. On the first day of trading since the court-ordered suspension, the KSE closed down 1.59%; on the second day

(November 18), the KSE eked out its first increase since November 5, closing up 0.36%.

15. (U) On November 18, the Council of Ministers announced that the KIA would establish a "bourse bailout" fund. Local media reports indicate that this will be a multi-billion dollar fund, which will invest in the KSE in an effort to contain the effects of the global financial crisis on Kuwait's stock exchange. The task force overseeing this fund will be led by the Central Bank.

16. (C) Comment: The Gulf Bank rescue package and the bourse bailout fund constitute the GOK's latest efforts to stem the crisis of confidence that has gripped the Kuwait financial sector in the past month. Although KIA reportedly had already invested heavily in the KSE, it is now officially the buyer of last resort for the bourse, Kuwait's troubled investment companies, and the crisis-ridden Gulf Bank. According to a senior KIA official, the funds will come from the General Reserve Fund, which holds the GoK's fiscal surplus and serves as a stabilization fund for Kuwait. The investment, however, will not come from the much larger Fund for Future Generations, which invests outside of Kuwait. The latest actions appear to represent a GoK effort to show a coordinated plan to deal with the financial crisis. However, public anxiety about the health of the local economy will likely remain heightened for the time being, given the generally poor GOK communications and the ongoing confrontation between the GOK and the parliament. End comment.

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